

## Message Text

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ACTION EB-07

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CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

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FM AMEMBASSY KUALA LUMPUR

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E O. 11652: N/2

TAGS: EINV MY

SUBJ: INDUSTRIAL COORDINATION ACT

REF: KL 6430

1. ZAINUDDIN BIN HAJI DIN, INDUSTRY DIVISION DIRECTOR, MINISTRY OF TRADE AND INDUSTRY (MTI), RECENTLY BRIEFED COMMATT ON GENERAL SITUATION AS REGARDS IMPLEMENTATION OF INDUSTRIAL COORDINATION ACT (ICA). ACCORDING TO ZAINUDDIN, WHO HAS PLAYED KEY POLICY ROLE IN FORMULATION MMUICA, MTI HAS NOW COMPLETED SEMINARS WITH CHINESE CHAMBERS IN IPOH, PENANG AND JOHORE BAHRU. HE SAID MOST NOTABLE FEATURE OF THESE SEMINARS WAS THAT IT NOT NECESSARY FOR MTI OFFICERS PRESENT TO COVER MUCH OF SAME GROUND DISCUSSED IN KL SEMINAR (REFTEL). LATER SEMINARS ALL FOCUSED ON TECHNICAL ASPECTS OF ICA RATHER THAN ON CHARGES OF GOM PLOT AGAINST CHINESE BUSINESS. ZAINUDDIN ATTRIBUTED THIS TO "CHINESE TRANSMISSION NET" WHICH PASSED WORD ALONG TO HINTERLANDS THAT MTI PREPARED TO TAKE FLEXIBLE AND REALISTIC ATTITUDE IN IMPLEMENTING ICA.

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2. ZAINUDDIN CONFIRMED THAT THE CHINESE CHAMBER HAD REQUESTED

THAT ALL FIRMS WITH LESS THAN 45 EMPLOYEES AND M\$500,000 IN SHAREHOLDERS FUND (A COMPLICATED FORMULA DEFINED AS AGGREGATE OF:

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PAID UP CAPITAL, RESERVES, BALANCE OF SHARE PREMIUM ACCOUNT AND BALANCE OF PROFIT-AND-LOSS APPROPRIATION ACCOUNT) BE EXEMPTED. AT PRESENT, MTI HAS ONLY ANNOUNCED EXEMPTIONS FOR FIRMS WITH 25 EMPLOYEES OR M\$100,000 IN SHAREHOLDER'S FUND. ACCORDING TO ZAINUDDIN, MTI IS NOT LIKELY TO GO ALONG WITH CHINESE CHAMBER'S REQUEST BECAUSE FIRMS AT TOP END OF CATEGORY COULD HAVE UP TO M\$ ONE MILLION IN ASSETS AND, AS A CONSEQUENCE, WOULD HAVE TO BE CONSIDERED LARGE BY MALAYSIAN STANDARDS. HE DID SAY, HOWEVER, THAT POSSIBILITY OF RAISING EXEMPTION LEVELS TO SOME UNSPECIFIED LEVEL IS UNDER CONSIDERATION.

3. ACCORDING TO ZAINUDDIN, A STRATEGY DEBATE IS GOING ON IN MTI AS TO BEST WAY TO IMPLEMENT ICA. ONE GROUP ARGUES THAT MTI SHOULD TRY AND DEAL WITH MANY SMALLER (CHINESE) FIRMS FIRST BEFORE TAKING ON LARGE, SOPHISTICATED FIRMS (INCLUDING FOREIGN INVESTORS). REASONING IS THAT IN MOST CASES, IT WILL BE EASY TO REACH AGREEMENT WITH SMALLER FIRMS THAN WITH LARGE FIRMS WHICH MORE LIKELY TO DRAG FEET DURING NEGOTIATIONS. OTHER GROUP, WITH WHICH ZAINUDDIN ASSOCIATES HIMSELF, TAKES EXACT OPPOSITE VIEW. WHILE RECOGNIZING THAT IT MORE TIME CONSUMING TO DEAL WITH LARGE FIRMS, GROUP BELIEVES THIS APPROACH WOULD PAY GREAT DIVIDENDS IN TERMS OF ALLAYING CHINESE COMMUNITY FEARS. APPROACH SOUGHT IS TO FIRST DEAL WITH THOSE FOREIGN FIRMS (MOSTLY FOREIGN) WHICH HAVE ALREADY RECEIVED MTI APPROVAL FOR INVESTMENT INCENTIVES. MANY OF THESE (SPECIFICALLY THOSE LICENSED SINCE JANUARY 1, 1972) CAN BE QUICKLY LICENSED. MANY FIRMS REMAINING IN THIS GROUP HAVE MET MOST CONDITIONS AND WILL BE RELATIVELY EASY TO LICENSE. ONLY AFTER THIS PROCESS WELL IN HAND WOULD MTI MOVE AFTER OTHER LARGE FIRMS. IN THIS MANNER, ZAINUDDIN BSIEVES, EXAGGERATEDIKEARS ON PART OF LARGE NUMBER OF MEDIUM AND SMALL SIZED CHINESE MANUFACTURERS WILL BE EASED AS THEY SEE LARGER FIRMS RECEIVING EQUITABLE TREATMENT. BY THE TIME IT THEIR TURN, IDEA OF COMPLYING WITH ICA WILL HAVE BEEN ADJUSTED TO BY ALL FIRMS. ZAINUDDIN CONFIDENT HIS GROUP WILL WIN IN POLICY DISPUTE.

4. ZAINUDDIN STRESSED THAT MTI, AND PARTICULARLY HIS DIVISION, LIMITED OFFICIAL USE

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WOULD TAKE FLEXIBLE APPROACH, ESPECIALLY ON SENSITIVE ISSUES OF EQUITY INVESTMENT AND BUMIPUTRA (INDIGENOUS MALAY) EMPLOYMENT. HE STATED HE AWARE OF LACK OF CAPITAL IN MALAY HANDS AND SHORTAGE OF TRAINED BUMIPUTRA MIDDLE MANAGERS. WHAT WILL BE EXPECTED IS THAT FIRMS WILL MAKE REALISTIC EFFORT IN THESE AREAS. IF, AFTER HAVING TRIED TO COMPLY, THEY UNABLE TO MEET CONDITIONS, LICENSE WILL BE GRANTED. IN MANY WAYS, IT WILL BE SINCERITY OF EFFORT AND NOT RESULTS THAT WILL DETERMINE MTI'S ATTITUDE.

5. COMMENT: ZAINUDDIN IS PROBABLY BRIGHTEST MIDDLE LEVEL OFFICER IN MTI AND HOLDS KEY POSITION IN ICA IMPLEMENTATION. HE IS ONE OF FEW OFFICERS IN A MINISTRY KNOWN FOR ITS LACK OF QUALITY TO DESERVE DESCRIPTIONS? "TECHNOCRAT", HAVING RECEIVED MBA FROM UCLA IN 1973. HE HAS REPUTATION AMONG OUTSIDE OBSERVERS AS BEING SMART AND A TOUGH BUREAUCRATIC INFIGHTER. HIS ASSURANCES, THEREFORE, OF FLEXIBLE TREATMENT FOR FIRMS UNDER ICA SHOULD NOT BE DISMISSED OUT OF HAND. HOWEVER, ONLY PASSAGE OF TIME WILL REVEAL HOW TRULY FLEXIBLE MTI'S APPROACH WILL BE AND HOW WELL IT WILL BE RECEIVED BY FOREIGN AND CHINESE BUSINESS COMMUNITY IN MALAYSIA. IN THIS CONNECTION, FEDERATION OF MALAYSIAN MANUFACTURERS (FMM) WILL HOLD SERIES OF MEETINGS WITH MTI REPS DURING REMAINDER OF THIS WEEK TO DISCUSS ICA REGULATIONS. THUS WE SHOULD HAVE FURTHER READ-OUT ON ICA ACCEPTANCE AND MTI'S "FLEXIBILITY" BY EARLY NEXT WEEK. END COMMENT.

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